

**SOUTH CAROLINA
DEPARTMENT OF ARCHIVES AND HISTORY**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2000

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State of South Carolina



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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

April 9, 2001

The Honorable Jim Hodges, Governor
and
Members of the Commission of Archives and History
South Carolina Department of Archives and History
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Department of Archives and History (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Deposits of Receipts and Classification of Revenue in the Accountant's Comments section of this report.

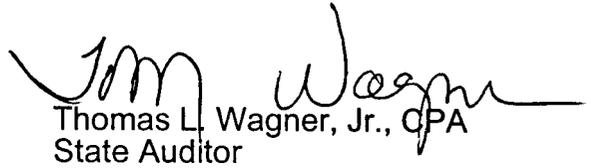
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for all new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
4. We tested selected recorded journal entries and all interagency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries tested were judgementally selected to include routine, large, and unusual items. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2000, and tested the final fiscal year 2000 reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. We judgementally selected the year-end reconciliations for testing. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2000. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 1999, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Reconciliations in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Compensated Absences Closing Package in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

The Honorable Jim Hodges, Governor
and
Members of the Commission of Archives and History
South Carolina Department of Archives and History
April 9, 2001

This report is intended solely for the information and use of the Governor and of the governing body and management of the South Carolina Department of Archives and History and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

DEPOSITS OF RECEIPTS

During our review of the Department's receipts and revenue, we noted that four of the 25 receipts tested were not deposited in a timely manner.

<u>Receipt #</u>	<u>Purpose</u>	<u>Amount</u>	<u>Deposit Lag</u>
529	Photocopies	\$10.00	8 Days
583	Publications	\$16.00	12 Days
1753	Photocopies	\$13.60	8 Days
2003	Photocopies	\$ 5.00	8 Days

Proviso 72.1 of the fiscal year 2000 Appropriation Act states, “. . . all general state revenues derived from taxation, licenses, fees, or from any other source whatsoever, and all institutional and departmental revenues or collections, including income from taxes, licenses, fees, the sale of commodities and services, and income derived from any other department or institutional source of activity must be remitted to the State Treasurer at least once each week, when practical . . .”

Significant turnover in the accounting department and lack of adequate supervision over the deposit function resulted in delays between receipt and deposit in excess of the one-week lag allowed by the Appropriation Act.

We recommend the Department implement procedures to ensure that receipts are deposited at least once each week. The new procedures should include identifying a trained backup to make timely deposits in the absence of the regularly assigned employee.

CLASSIFICATION OF REVENUE

During our analytical review of revenue for reasonableness by revenue account, we noted that funds were coded to an incorrect revenue object code. The Department served as a pass-through agency for funds received from the Friends of the Hunley organization for the Raising of the Hunley Submarine project in Charleston, South Carolina. The Department received a total of \$186,784 in fiscal year 2000 for this project; \$87,267 of which it coded properly to object code 7201 – miscellaneous revenue. However, the remaining \$99,517 was coded to object code 4001 – allocations from state agencies. These funds were not allocations from state agencies. According to agency personnel, this error resulted from a misunderstanding regarding the proper object code classification.

Section 2.1.6.10 of the Comptroller General's Policies and Procedures Manual (STARS Manual) describes revenue object codes. The code 7201 should be used to record miscellaneous revenue "that is not otherwise specifically classified under any other revenue object code."

We recommend the Department implement procedures to ensure that revenue is initially classified to the proper object code and that periodically coding is independently reviewed by someone knowledgeable about revenue codes.

COMPENSATED ABSENCES CLOSING PACKAGE

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to use in preparing the State's financial statements. The GAAP Closing Procedures Manual (GAAP Manual) provides guidance for the preparation of accurate and complete closing packages, assigns responsibility for their accuracy, requires completion of checklists for effective independent reviews of all

completed closing packages and the underlying work papers and requires maintenance of supporting workpapers. As described in section 1.8 of the GAAP Manual, an “effective review” of each closing package requires the knowledgeable supervisory employee who is not the preparer of the package and who is performing the review to “Trace all amounts from the appropriate agency accounting records or other original sources to the working papers and finally to the closing package itself”.

During our review of the Department’s Compensated Absences Closing Package, we noted that the Department did not include the 2.5 percent cost of living pay increase, effective for the July 1, 2000, paycheck when determining the compensated absences and holiday compensatory leave liabilities at June 30, 2000. The Summary Form and supporting documentation were not properly prepared or adequately reviewed. This resulted in an understatement of the annual leave and holiday compensatory time liabilities totaling \$9,381. Similar deficiencies regarding closing package preparation were described in our prior year report.

Section 3.17 of the GAAP Manual describes the applicable GAAP and provides guidance and instructions for preparing the Compensated Absences Closing Package. Regarding the pay rate in effect for the valuation of the June 30, 2000, leave liabilities, in the definitions of key terms section, it states that “Because of the State’s ‘payroll lag,’ the pay rate in effect at June 30, includes the following pay increases: . . . General pay increases (such as cost of living increases) that the General Assembly authorizes to be paid on July 1.” In addition, the Compensated Absences Closing Package Reviewer Checklist contains the following review step: “If there were any general pay increases included in July 1 paychecks or other pay increases effective in June but not paid until the new fiscal year, are these amounts

included in the computation of amounts reported on the Summary Form?” Furthermore, Section 1.8 of the GAAP manual states that an adequate internal control system includes safeguards to ensure the agency detects and corrects its own errors before submitting closing packages.

We recommend the Department implement procedures to ensure that it assigns the appropriate employees to prepare and perform an independent and “effective review” of each completed closing package. These persons should be knowledgeable about applicable GAAP and familiar with the GAAP Manual guidance and with the agency data required to be reported on the specific closing package under preparation or review. Each review must include proper completion of the applicable review checklist.

RECONCILIATIONS

Section 2.1.7.20 C. of the STARS Manual describes the importance of monthly reconciliations for the detection and correction of errors. Reconciliations between balances in the agency’s accounting records and those in the State’s accounting system (STARS) as reflected on the Comptroller General reports “. . . provide significant assurance that transactions are processed correctly both in the agency’s accounting system and in STARS and that balances presented in the State’s Comprehensive Annual Financial Report are proper . . . To ensure adequate error detection and to satisfy audit requirements,” the State requires agencies to perform monthly reconciliations of cash, revenues, and expenditures. Furthermore, “Agencies with federal subfunds are required to perform monthly reconciliations

between the CSA 467CM report (Trial Balance By Subfund, Project, and GLA) and the agency's records for each project and phase code." The cited STARS Manual section lists the following reconciliations requirements:

- Performed at least monthly on a timely basis (i.e., shortly after month-end).
- Documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes.
- Signed and dated by the preparer.
- Reviewed and approved in writing by an appropriate agency official other than the preparer.

The cited section goes on to say, "Errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or in STARS as appropriate."

We reviewed the final fiscal year 2000 reconciliations in detail and noted the following deficiencies in the Department's reconciliation procedures:

1. Reconciliations were incomplete and usually lacked the preparer's signature, the preparation date, and evidence (signature and date) of an independent review.
2. Balances in the Department's records differed from those on the Comptroller General's fiscal month 13 reports for three cash balances, eleven expenditure accounts, and five revenue accounts. All items comprising reconciling differences were not identified. Many reconciling items that were identified were not adequately explained.
3. The Department did not detect and explain all reconciling differences and did not correct errors throughout the year. Some of the individual reconciling items on the FM 13 reconciliations arose in earlier fiscal year 2000 months.
4. The Department did not reconcile federal fund transaction balances to its internal accounting system, the Statewide Automated Accounting System (SAAS), at the required level of detail. The SAAS general ledger report used for federal grants reconciliations does not separate balances by grant year although transactions are recorded in SAAS at that level of detail.
5. Using other internal records, the Department manually determined the detail of federal fund transactions, agreed the total thereof to SAAS, and reconciled this detail to the CSA 467CM report. The agency did not retain the applicable SAAS report and/or other documents to support the detail shown on the written reconciliation.

6. The department failed to prepare federal funds reconciliations on a timely basis. All federal reconciliations from July 1999 through April 2000 were completed in April 2000. Reconciliations for April 2000 were not fully completed. We were unable to determine if the remaining federal reconciliations for fiscal year 2000 were completed timely because they lacked preparer and reviewer signatures and dates.

Similar deficiencies in the preparation of reconciliations were described in our reports for the prior two years.

We again recommend the Department establish policies and procedures to ensure that its processes for timely prepared and reviewed monthly reconciliations of cash, revenues, expenditures, and federal funds are adequate to comply with all reconciliation, error detection/correction, and documentation requirements as set forth in the STARS Manual and as required for adequate accounting control. The Department should determine the SAAS system capabilities and/or consult with the SAAS support personnel at the University of South Carolina to modify/enhance the system to develop a report for federal funds with account balance detail by grant year. Also, we recommend that errors detected through monthly reconciliations be promptly corrected on its internal accounting records and/or in STARS as appropriate.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Department of Archives and History for the fiscal year ended June 30, 1999, and dated March 24, 2000. We determined that the Department has taken adequate corrective action on each of the findings except for the weaknesses described in the comment titled Reconciliations. We have repeated those deficiencies in Section A of this report.

MANAGEMENT'S COMMENTS



July 3, 2001

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
Office of State Auditor
1401 Main Street
Columbia, SC 29201

Dear Mr. Wagner:

In response to a recent report issued by your office on the audit of agreed-upon procedures of the accounting records of the South Carolina Department of Archives and History for the fiscal year ended June 30, 2000, we would like to address the findings.

Almost all findings were due to problems existing as a result of staff turnover. Also, new responsibilities were added to the accounting staff due to retirements and agency reorganization. Under the mandated budget cuts, our staff is dwindling, yet our services to the public and our programs continue to grow. Essentially we are still doing more with less.

Our records show deposits were made at least once each week. The receipts sited in the report were for requests from customers that had to be researched to see if the orders could be filled. If we deposit checks too soon, then we must issue a refund if the order cannot be filled.

The Compensated Absences Closing Package is generated from the automated accounting system at the June 30 payroll rate. The GAAP closing package reflected the rate at June 30. In the future the report will be calculated as of the July 1 payroll if there is a pay increase effective that day.

Due to shortness of staff, reconciliation was not always performed in a timely manner, but, steps have been taken to eliminate that problem.

Our review is complete and you have permission to release the report at your earliest convenience. Attached are a list of current commissioners and their addresses.

Yours very truly,

Rodger E. Stroup, PHD
Director

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